

## Summary

Hungary is located in the heart of Central Eastern Europe, and as such offers significant opportunities for the development of logistics services in the future. Having joined the European Union in May 2004, Hungary is now part of a broader market that includes 455 million people, offering new opportunities to foreign investors as well as local companies. The government of Hungary (GOH) is planning, as part of its National Development Plan to become a logistics center for Central and East Europe, providing more high value added services for the goods transported in the country or crossing Hungary. This should present opportunities for U.S. firms in a variety of areas, from ITS (Intelligent Transport System) products, to infrastructure support for ports and airports, to related advisory, consulting and financial services.

## Market Overview

Here are some basic facts about Hungary as it relates to logistics:

**Location:** Hungary is located in the middle of Europe, crossed over by four EU-defined TEN (Trans European Network) transport corridors: No. IV, V, VII (River Danube), and X intersect.

**Territory:** 93,030 square kilometers.

**Population:** 10.2 million.

**Length of state borders:** 2,246 km

**Number of major checkpoints:** 10

**Number of bordering countries:** 7 (Austria, Slovakia and Slovenia and 4 non-EU member states, Ukraine, Romania, Serbia and Croatia).

**Length of highway network:** 630 km

**Length of public road network:** 30,000 km

**Length of railway network:** 7,727 km, of which 2,727 km belongs to Trans European Network (TEN)

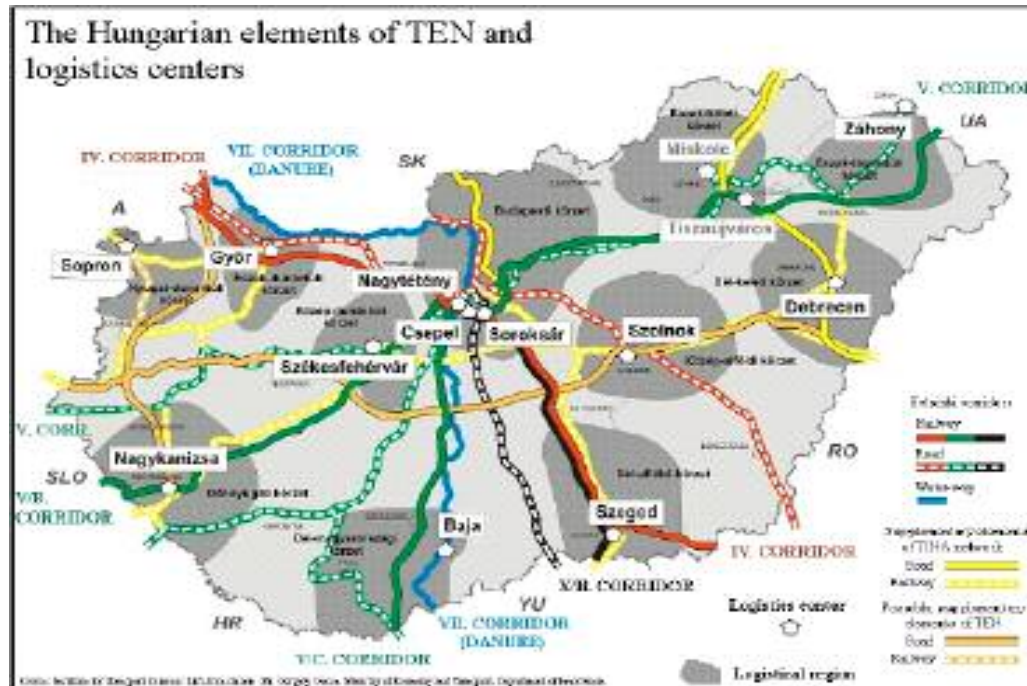
**Number of international airports:** 3 (Budapest, Debrecen, Sarmellek).

**Main river used for transportation with logistics infrastructure:** Danube. The lack of direct sea linkage is compensated by the tremendous opportunities offered by the Danube.

Due to its unique geographic position, four important international roads (part of TEN) cross Hungary. Only Poland has more among the newly accessed 10 EU states. Improving Hungary's transportation infrastructure in order to make best use of its geographic advantage is a government priority. The Ministry of Economy and Transportation has designated eleven logistical regions and thirteen logistics centers in Hungary, which are classified as having national importance.

Seven of the 13 ongoing development projects have started operation so far. Three are in Budapest (BILK, Harbor Park and Mahart Freeport). The other logistics centers are located in the countryside: Debrecen, Szekesfehervar, Sopron and Miskolc. Another four, in Nagykanizsa, Szolnok, Baja and Szeged are in the late planning stages, while the cities of Gyor and Zahony also have been targeted.

The logistics sector in Hungary is already large and growing. Recent statistics have indicated annual growth of 10-30 percent, accounting for 15-20 percent of GDP. Key players of the logistics and service providers' market include Hungarian, Dutch, German, Austrian and American companies.



## Market Trends

Hungary has always served as a logistics center, providing a gateway between Western Europe, the Balkans and East Europe. Its geographic location, combined with other factors such as hosting international transport corridors, membership in the European Union, rapid economic development of neighboring countries, political and economic stability, and the presence of multinational companies, have strengthened this traditional position.

Quantity of goods transported, 1000 tons

Year	Rail	Road	waterway	pipeline	air	total
2002	50,370	119,724	3,006	23,360	10	196,470
2003	50,612	123,276	2,105	24,107	13	200,113
2004	51,997	119,460	2,464	25,142	13	199,076

Currently, about 8-9 percent (roughly 103,000 trucks) of all transit freight through Hungary is conducted via **RO-LA** (rolling road), a five –fold increase over the past 10 years. **RO-RO** (combined water/road) traffic has decreased, however, due to the war in the Balkans and ruined bridges over the Danube.

Logistics/transportation services are one of seven main industry sectors supported by the state. The National Development Plan and The European Plan will provide funds to execute the programs that are classified as strategically important. Both logistics and industrial parks can apply for state funding from various sources. A logistics park that also qualifies as an industrial park can apply for funding from two sources. In addition, a third fund is available for state-approved logistics centers. Until the end of 2006, USD 50 million will be granted for industrial parks, development of logistics services and investments in industrial regions of Hungary.

## **Best Prospects**

The GOH has designated the following development programs as priorities for the time period between 2007 and 2015:

- Development of a network of logistics centers and modern, combined transport terminals to increase the share of environment friendly transportation
- Development of basic infrastructure of public ports on the Danube river (Gyor-Gonyu, Budapest, Dunaujvaros, Baja)
- Development of international airports with regional importance (Budapest, Debrecen, Sarmellek)
- Use of ITS (Intelligent Transport System) to make transportation of people and goods more effective.

## **State-Approved Logistics Centers in Hungary**

1) The **BILK** (Budapest Intermodal Logistics Center) is a 100 hectare site at the M0 motorway and the trunk railroad from Budapest to Kelebia (South Hungary). The real estate is located close to the crossroads of all the important international destinations and transit lines. In addition to the excellent road and railroad connections, convenient waterways and air connections are also accessible (e.g., the Free Port of Csepel, Ferihegy airport), and it can easily be reached from the city center.

2) **DELOG** Debrecen Logistics Center and Industrial Park (East Hungary) is Hungary's largest state-approved logistics center outside of Budapest.

3) **GYSEV** Gyor-Sopron-Ebenfurt Railway (West Hungary): the main activity of GySEV Corp. is the management of railway passenger and goods traffic between the stations Győr and Ebenfurth, as well as between the stations Fertoszentmiklos and Neusiedl am See (Austria) on the line of the Ferto Lakeland Railway Corporation (with a concession and operating license from 1897).

4) **Harbor Park** Budapest Logistic Center is state-of-the-art and one of the most important logistic developments in Central Europe, and is operated by the American Crow Holdings International and the Hungarian Wallis Property Co. The Harbor Park Budapest Logistic Center will be realized during four years in the framework of an investment of USD 70 million. The Park, when all facilities are completed, accommodates warehouses and offices at 180,000 square meters.

5) **MAHART Csepel:** the Freeport of MAHART lies 7 kilometers from the center of Budapest. There are 95,000 square meters of covered space, 70,000 square meters of open storage, and a 2000-meter long wharf. The port is a logistics center capable of trans-shipping, storing and distributing any kind of cargo. The first ever container terminal along the Danube has been set up at this Freeport.

6) **MAV Combined Terminal Kft.** in Záhony (Northeast Hungary) is not in operation yet. (During Hungary's communist regime, this point of the border was the most modern and frequently used, with a large reloading capacity between narrow and wide railway systems. After the changes in the political system in 1989, trade between Hungary and former Soviet Union collapsed, so this border point is no longer as popular.)

7) **LOGISZTÁR** is located in Mid-Transdanubia at Székesfehérvár. After the capital, this city has attracted the most investors due to its proximity to Budapest. Logisztat was one of the first logistics centers approved by the Ministry of Economy and Transport.

8) **LOGISZOL** in Szolnok (Mid Great Plain) has access to four main transportation routes: rail, road, river and air.

9) **Logistics Service Center of Szeged**, South Hungary is a green-field project being undertaken by Hungarian firm PRAELOG Kft.

10) **Nagykanizsa Logistics Center and Industrial Park** (South-West Hungary). The city of Nagykanizsa lies at the crossroads of important international transportation routes and railway lines. Nagykanizsa is close to the Croatian, Slovenian and Austrian borders.

11-12) **ATI DEPO** Units in **Miskolc** and **Baja** are members of the national logistics chain. ATI DEPO has a warehouse network that covers the territory of Hungary. The depot network of 300,000 square meters is comprised of the following depots in Budapest (in Rakospalota and Rakoskeresztur), Baja, Győr, Miskolc, Pecs, Szabadbattyán, Szajol and Szigetszentmiklós. They have five grain logistic depots (in Kecskemét, Kalocsa, Bekescsaba, Mezokovocshaza, Oroshaza), which are used as the points of in a line-haul system. The warehouses are easily accessible by road, rail and river (at Baja).

13) Port of **Győr-Gonyu** (North West Hungary) is under development. Győr, situated at the Western gate of the Carpathian Basin, is a part of the Vienna-Győr-Bratislava region. As a point of intersection along the European railway and road networks, and with the Danube as a possibility of an extended waterway, the construction of a modern Combined Freight Transportation and Logistics Center is a must. A number of national transit railway lines of highlighted importance, as well as the main line of the motorway network, are routed through here. Győr-Gonyu is directly connected to the European long-distance road E60, which leads from Brest (France) to Constanța (Romania), as

well as to long-distance roads E75 Helsinki (Finland) - Athens (Greece) and Ystad (Sweden) - Rijeka (Croatia).

Thus the Gyor-Gonyu National Public Traffic Harbour will be a combined traffic intersection, where railway, road and waterways meet.

### **Key non-U.S. property developers in the logistics sector**

**Akron Group** of Austria has developed the 115,000 square meter “Euro-BusinessPark” office complex at Budaors, along the M0 and M7 motorways. The logistics park offers efficient and modern warehouse space, logistics related services, professional management and high flexibility for tenants, according to the firm.

**Parkridge** CE Development from Great Britain entered the Hungarian market in 2004. It has started to build a warehouse beside the M0 motorway in Szigetszentmiklos, South of Budapest.

### **Key U.S. investments in the logistics sector**

**AIG/Lincoln** has been present in the Hungarian market as a real estate developer for years. Among other projects, it has built two logistics centers: the “Airport Business Park” (next to Budapest International Airport) and “M1 Business Park” at Paty, along the M1 motorway.

**ProLogis Inc.**, a U.S. -based logistics parks and services developer, has began construction at two sites near Budapest. First is a new logistics center, named ProLogis Park Budapest in Gyal, which is southeast of the capital near the junction of the M0 and M5 motorways. This will host nine distribution facilities with a total net area of 150,000 square meters of warehouse and office space. The other development is a 29,000 square meter built-to-suit distribution center in Budaors, along the M1 motorway at the southwestern edge of Budapest. Because demand appears considerable, ProLogis is looking for a new site between Budapest and Vienna, along the M1 motorway. Later the firm may also expand to the south, providing an easy connection for logistics service providers toward Romania and the Balkans. ProLogis has been reported to be planning to invest Euro 100 million in Hungary over the long term.

Currently, 640,000 square meters of space is available. Some 45,000 square meters of new industrial real estate will be completed in the near future. Further 1 million square meters of warehouse space is under planning or in the phase of construction.

**Loranger Industrial Park**, a U.S. owned company, bought two former Soviet military bases in Szekesfehervar and established the first joint venture with the Hungarian government in 1992. Since then, Loranger has been providing full service (turn key) assistance in its park of 260 hectares to foreign investors in establishing manufacturing operations in Hungary.

### **Logistics services providers**

According to one market source, the size of the Hungarian logistics service market is about USD 1 billion and it will continue to grow considerably over the next 8 years, perhaps even double or triple in size. Currently, Hungarian companies dominate the market. The share of foreign companies, representing 41 countries, is about 13 percent. Most international logistics companies are present in Hungary. The largest investors by share of subscribed capital are from the Netherlands, Austria and Germany.

For example, the Dutch **Rynart Group** of Companies started to co-operate with Hungarian companies in the late eighties. By investing heavily in warehousing, customs clearance facilities and a domestic distribution network, Rynart Transport Hungary Kft. has grown to be one of the leading logistics service suppliers of Hungary. The German **REWICO Logistics** entered into Hungary in 1996. In 2003, it bought the Hungarian partner it had worked with earlier. Rewico plans to buy in more Hungarian companies and would like to be one of the top 10 logistics companies in the Hungarian market. Other international service providers include **DHL, Frans Maas, Kuehne & Nagel, NYK Logistics, Rudolph Logistik, UPS and Wincanton.**

Based on net revenues from logistics services in 2003, the top local companies include **MAV Group** (State Railways), **Magyar Posta** (Hungarian Post Office), **Waberer Group, Mased Group, and Raabfreight Group.** Of the foreign companies, **Exel, Delacher & Co., Lagermax Group, Schenker** and **T&T Group** are among the best known.

New business openings may await logistics providers as a result of a growing need for "reverse logistics" services due to a new EU Waste Electrical and Electronic Equipment directive. This decrees that certain returned goods must be collected from customers. The regulation lists ten categories of appliances that present a potential danger to the environment. These range from large and small household appliances, to IT and telecommunications equipment to medical devices.

Hungary is becoming a popular spot to locate call centers and other "Service Centers". For example, Exxon Mobil, EDS, Brooks Instruments, IBM, GE and Hewlett Packard all have opened or relocated service centers (e.g. call, accounting, tele-banking, human resources, etc.) in the country.

### **Market Entry**

Registration of companies in Hungary has become simple under the Act on the Registration of Companies (Act CXLV of 1997). U.S. entities planning to set up businesses in Hungary are advised to consult with an experienced attorney and accounting firm. Lists of law and accounting firms may be obtained from the U.S. Embassy's commercial section. In addition, it should be noted that obtaining and renewing work and residence permits has become increasingly onerous as the government attempts to crack down on illegal residents. U.S. businesses are urged to hire a local law or accounting firm or a company that specializes in this type of work to assist with the process.

## **Key (Web) Contacts**

Hungarian Logistics Association

Web Site: [www.mle.hu](http://www.mle.hu)

Institute of Transport Sciences

Web Site: [www.kti.hu](http://www.kti.hu)

National Development Office

Web Site: [www.nfh.hu](http://www.nfh.hu)

Ministry of Economy and Transportation

Web Site: [www.gkm.hu](http://www.gkm.hu)

Hungarian Investment & Trade Development Agency

Web Site: [www.itd.hu](http://www.itd.hu)

Hungarian Chamber of Commerce and Industry

Web Site: [www.mkik.hu](http://www.mkik.hu)

Association of Industrial Parks

Web Site: [www.datanet.hu/ipe](http://www.datanet.hu/ipe)

Hungarian Association of Logistics Service Providers

Web Site: [www.mlszksz.hu](http://www.mlszksz.hu)

## **Upcoming Trade Shows/events**

**Logi-Tech 2005.** September 13-15, 2005, Budapest, Hungary.

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Exchange rate: USD 1 = HUF 200

**Sources:** Hungarian Logistics Association, Ministry of Economy and Transportation, ITD Hungary, Budapest Business Journal, ReSource IngatlanInfo, LogInfo, Mahart, Vilaggazdasag, Magyar Hirlap, American Chamber of Commerce, [www.logsped.hu](http://www.logsped.hu), [www.Tranzit.hu](http://www.Tranzit.hu), [www.toppoint.hu](http://www.toppoint.hu)